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OCA Record

OCA 86-3051
11 September 1986

NOTE FOR: Dave Gries

FROM:

STAT

SUBJECT: D'Amato's Trip Report

1. Attached is Dick D'Amato's trip report in which he reports that confirmed press claims that the Agency intends to exceed the \$100 in aid for the Nicaraguan freedom fighters.

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2. My contact repeats that we will receive formal tasking on this issue. He suggests that we may have to address the issue retrospectively since the attached press clipping claims this has been going on for the past two years.

cc: C/DO/EPS
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CIA Uses Loophole to Aid Contras

Agency lends Nicaragua rebels millions in equipment, services

By Roy Gutman

Newsday Washington Bureau

Washington — The CIA, using a legal loophole, has given millions of dollars worth of unappropriated aid to Nicaraguan contra rebels and plans to provide at least \$100 million more on top of the \$100 million Congress has just approved, according to administration sources.

Defense sources said that over the past two years, the CIA has "loaned" helicopters, trucks and other services to the contras despite a ban on spending funds for direct support. The U.S.-backed rebel force seeks the overthrow of the leftist Sandinista government in Managua.

The CIA did not transfer the additional funds or goods to the contras, so it stayed within the letter of the law.

Instead, the CIA invested in equipment to which it retained title and provided in-kind services without charge.

A defense official estimated the value of such equipment and services provided by the CIA at \$50 million over the past two years. He said the equipment included light aircraft and helicopters used to fly the contras around Honduras, trucks, jeeps and generators.

The same source estimated that the agency plans to provide the equivalent of \$100 million to \$150 million in goods and services in the next year — over and above the \$100 million in aid to the rebel forces that has just been approved by Congress.

Other sources say the figure could be several times higher.

Don Mathes, a White House spokesman, said such support is "perfectly legitimate." He said that if the CIA lends equipment and services "without violating the letter or spirit of the law, they can do it." He said so much of the overhead of the CIA, Defense and State Departments in Honduras and other countries is in support of the Nicaraguan resistance that he could not begin to estimate the value of additional goods and services provided to the contras.

The issue was brought to light last week by Senate Minority Leader Robert Byrd (D-W.Va.), who sponsored two amendments during the debate on contra aid to prohibit "massive hidden military aid . . . through a new kind of lend-lease program."

Newsweek said in its July 7 issue

that the CIA "is preparing to provide the rebel forces with covert logistical support, training, communications and intelligence worth the equivalent of \$400 million."

Byrd said in floor debate the Newsweek account had been confirmed by a responsible U.S. Embassy official in Honduras on July 7, 1986. "He indicated it was correct that the CIA intended to provide unappropriated aid that could reach that amount."

The senator did not elaborate. The unnamed official gave the confirmation to Byrd aides who were visiting Honduras and other Central American countries. According to the trip report, the official said the CIA would provide the aid, "Primarily by purchasing materials that would be

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NATION

Ex-Envoy Clashed With White House

By Roy Gutman

Newsday Washington Bureau

Washington — John Ferch, fired this summer as ambassador to Honduras, said shortly before leaving his post that the Reagan administration should seek a negotiated solution with Nicaragua but had no idea what course to take in diplomacy.

His remarks to aides of Senate Minority Leader Robert Byrd (D-W.Va.) July 8 indicate that despite State Department denials, Ferch had serious policy differences with Assistant Secretary of State Elliot Abrams, who abruptly fired him at the end of June.

Ferch told Byrd's aides that a negotiated solution was "plausible" and that this was a particularly good time to seek one because there are new Central American presidents in Costa Rica, El Salvador, Honduras and Guatemala who are committed to democracy, enjoy relatively strong mandates and are showing leadership.

But the United States "has not sat down at high levels and talked about where does diplomacy go from here," he was quoted as saying in the report by Byrd's chief foreign policy aide, Richard D'Amato.

"We have to encourage the four that the U.S. is behind the diplomatic route [Honduran President Jose] Azcona is worried about U.S. policy, that is, that our policy towards Honduras will be secondary to war in Nicaragua," Ferch was quoted as saying.

Abrams has stated publicly that the time for diplomacy with Nicaragua has passed, and that the American policy goal is to install a democracy in Managua to replace the leftist Sandinista government.

In an interview in mid-July, Ferch

told Newsday he believed the administration was seeking a military solution in Nicaragua and that the \$100 million sought for the contra fighters will become "just a downpayment."

On Aug. 1, Abrams' chief deputy, James Michel, dismissed Ferch's remarks to Newsday as "nothing but pure emotionalism." Congressional aides said that Michel said in an un-

classified briefing that Ferch's comments were those "of a bitter and disappointed man who lost his job for nonpolicy reasons."

Senior U.S. diplomats in Tegucigalpa expressed concern that the firing had serious policy implications.

D'Amato's report, a copy of which was obtained by Newsday, quoted "a very knowledgeable U.S. Embassy official" as saying "the way in which

Ferch was fired risks a reaction from the Honduran elite. They see it as harsh and heavy-handed."

A second embassy official, identified only as "another senior U.S. diplomat," was quoted as saying: "Hondurans don't like to be pushed around. Ferch was very important to President Azcona."

The CIA's Deal With the Contras

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turned over to the contras but to which the CIA would retain legal title." A copy of the report by Richard D'Amato, Byrd's principal foreign policy aide, was obtained by Newsday.

A congressional source familiar with the report said the U.S. Embassy official confirmed the CIA's plans without hesitation. "He was not defensive. He seemed to imply they'd be stupid if they didn't do it," the source said.

Byrd failed in both attempts to persuade the Senate to impose a prohibition on such aid or on provision of funds for contra programs from the CIA's contingency fund. His first attempt on Tuesday night was defeated 51 to 47 after a plea by Sen. Richard Lugar (R-Ind.), chairman of the Foreign Relations Committee, that it be rejected. Lugar said that the amendment made common sense but that any changes in the bill as passed by the House would force a conference and might kill the prospects of final passage. Contra aid was inserted in the military construction bill by the House, which approved the funding in June.

About an hour before the last vote

for the \$100 million on Wednesday night, Byrd reintroduced the amendment, this time in a different part of the bill and using more specific language. The counsels of the Senate intelligence committee also took part in drafting the language that would prohibit any "grant, sale, loan, lease, bailment, credit, guaranty, insurance or properly chargeable service." When Lugar challenged the meaning of "properly chargeable service," Byrd replied that the language had been suggested by the CIA.

Byrd, who often appears introspective and dour, spoke passionately for the amendment. "If this nation is going to go to war in Central America, I do not feel that it should be done secretly," he said Tuesday. On the second try, he said: "If we are going to sink more money into a morass in Central America, let us first try diplomacy. . . . If it goes beyond that, then let us not have any hidden money, any secret money, any under-the-table money going to the contras."

Lugar pledged to carry out the strictest possible oversight, and Byrd's move was defeated 52 to 48.

It is not clear how the matter will be

overseen. Pentagon and White House officials said that if U.S. military exercises are stepped up in the region, as they very easily can be, airfields will be built, jungles cleared, training facilities established and military equipment, shipping and other services made available by the Defense Department or the CIA. The value of these cannot be calculated.

An example of the difficulty in sorting out the source of funding came to light two weeks ago when a helicopter crashed in a suburb of Tegucigalpa, Honduras, with Americans as pilots and four Miskito Indians as passengers. The accident area was evacuated, but Honduran newspapers carried pictures of blond Americans in civilian clothes carrying away the wreckage.

Reuters quoted officials of the principal contra fighting force, the FDN, as saying that the CIA hires Honduran Air Force helicopters to ferry contras around Honduras and that the money came from "political funds" that are reported to the congressional intelligence oversight committees. But Mathes said the flight was more likely an example of the CIA putting its "overhead" to good use for the contras.